

# NATIONAL CREDIT UNION ADMINISTRATION

# NCUA News

## Chairman Dollar says risk-based PCA is an “idea worthy of serious consideration”

*Dollar calls for support of Congressional action to “improve PCA” by making it risk-based and no longer “one size fits all”*

Board Chairman Dennis Dollar told a large group of credit union leaders in Grand Rapids, Mich., May 29, 2003, that legislation is needed to base the federal Prompt Corrective Action (PCA) law for credit unions on risk-based assets. This would “improve the one-size-fits-all PCA law” that inhibits proper credit union business planning because it “fails to properly reward solid risk management decisions and penalizes planned and balanced credit union growth.”

“I believe strongly in a regulator taking prompt corrective action any time a financial institution has net worth prob-

lems, and any regulatory actions should certainly be taken before the problem becomes severe and may jeopardize the institution,” said Dollar. “However, any trigger for taking such action requires the evaluation of the risk in the institution. Every credit union with 7 percent net worth does not have the same risk profile, but yet PCA says that any credit union with at least 7 percent net worth is well capitalized. This one-size-fits-all approach is just not reasonable in what is inherently a risk-based process.”

Dollar has proposed that the PCA standards of 7 percent to be well capital-

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ized and 6 percent to be adequately capitalized be maintained but be based upon a denominator of risk assets rather than total assets as specified in the present law.

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## Cutting the Red Tape



**June 3, 2003, Washington, D.C.** – NCUA Chairman Dollar participates in a regulators press conference at the FDIC unveiling a joint “cutting the red tape” thrust to review and reduce federal financial regulatory burden. Comptroller of the Currency John D. Hawke, Jr., NCUA Chairman Dollar, Federal Reserve Governor Susan Bies, Office of Thrift Supervision Director James E. Gilleran, and FDIC Vice Chairman John M. Reich took part.

### New ATM requirements

In 2003, many credit unions will have to replace or upgrade old ATMs to meet new technology requirements.

- All ATMs must be compliant with the encryption standard known as Triple DES, data encryption standard.
- The standard operating system for most ATMs is OS/2. IBM created OS/2, has discontinued it and will stop supporting it by yearend 2003. ATM manufacturers have switched to a Windows NT operating system.

## News briefs

**NCUA readies Banking Committee input** – Chairman Dollar will submit a list of regulatory relief suggestions to the Senate Committee on Banking, Housing, and Urban Affairs by June 30. Committee Chairman Richard Shelby requested the input for consideration of possible regulatory relief legislation later this year.

### NCUSIF update

**Insurance losses:** Reserves for potential losses were increased \$3.3 million in May -- \$1.5 million was expensed to increase the National Pool Reserve and \$1.8 million was expensed to increase specific case reserves.

**NCUSIF equity level:** The NCUSIF equity level remains 1.31 percent. The equity level is based on December 31, 2002, insured shares of \$442.5 billion.

**Credit union failures:** Through May, six credit unions failed in 2003. One merged with assistance and five entered involuntary liquidation. Of the involuntary liquidations, three were purchase and assumptions. Losses for the year are \$2.8 million.

**Capitalization deposit adjustments/operating fees:** Capitalization deposit adjustments and operating fees were due April 14, 2003. By May 31, NCUA received \$236.8 of the \$243 million assessed.

**Austin office building PIF** – NCUA has paid-in-full the \$1,074,000 loan for the Austin office building housing Region V and the Asset Management Assistance Center.

**Ombudsman activity** – In the second quarter of 2003, the NCUA Ombudsman received and completed the review of one complaint.

## New links on the NCUA website

**Apply online to add up to 2,999 potential members** – Federal credit unions can now apply online to add associational or occupational groups of up to 2,999 potential members at <http://www.ncua.gov/org/NCUAgovLink.htm>

After a group is approved and the Board Resolution is adopted, credit

unions can begin to offer financial service to the new group.

**Share insurance forms added to the Internet** – The *Deposit Invoice/Refund Statements* and *Deposit Insurance Payment Coupons* are now on the NCUA website at [www.ncua.gov/indexdata.html](http://www.ncua.gov/indexdata.html). Credit unions can print a Deposit Invoice/Refund Statement or a Deposit Insurance Payment Coupon from the Internet. These applications will soon replace the current biannual process of printing and mailing statements and coupons to all federally insured credit unions.



## GC opinion letters

The NCUA General Counsel's Office issues opinion letters interpreting agency regulations and policies in response to questions submitted.

Summaries of a few recent opinion letters follow. Secure the letters mentioned or access all GC opinion letters on the NCUA website at [http://www.ncua.gov/ref/opinion\\_letters/opinion\\_letters.html](http://www.ncua.gov/ref/opinion_letters/opinion_letters.html)

**#03-0165 – Re: FCUs exempt from D.C. Home Loan Protection Act of 2002 (HPLA)** – Federal law preempts and FCUs need not comply with HPLA, a District of Columbia anti-predatory lending law requiring disclosure and prohibiting terms and conditions in residential-secured loans. Various HPLA provisions are specifically identified in NCUA's lending regulation as examples of types of provisions our lending regulation preempts. The *Federal Credit Union Act*, NCUA regulations and the *Truth in*

*Lending Act* contain significant consumer protections for FCU member loans.

**#03-0315 – Re: Permissible activities for credit union service organizations (CUSOs)** – Developing data processing software for licensing to credit unions is a permissible activity for CUSOs. Also, a federal credit union may invest in a CUSO that is organized as a limited liability company for the same purpose. Generally, a CUSO does not have the independent investment authority to make this kind of investment.

**#03-0413 – Re: Benefits of payable-on-death accounts** – FCUs are not required to offer payable-on-death (POD) accounts. However, simple POD accounts are relatively easy to establish and offer several member benefits -- permit members to establish an account that is payable on death to a spouse, child, grandchild, parent, or sibling and serve as the primary way members can expand insurance coverage beyond the \$100,000 limit on single or joint accounts.

NATIONAL CREDIT UNION ADMINISTRATION  
**NCUA News**

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Dennis Dollar, Chairman**  
**JoAnn Johnson, Vice Chair**  
**Deborah Matz, Board Member**

Information about NCUA and its services may be secured by contacting the Office of Public and Congressional Affairs, at 703-518-6330. The weekly Treasury-bill rates are available by calling 800-755-1030 or 703-518-6339.

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## Board actions – May 22, 2003

### Final investment rule and RegFlex amendments adopted

The NCUA Board issued a final rule amending Part 703 of the regulations to clarify and reformat the rule making it easier to read and locate information, expand FCU investment authority to include purchasing equity-linked options for certain purposes, and exempt RegFlex eligible FCUs from several investment restrictions. The change also amends Part 742, the RegFlex Program, to conform to investment rule revisions.

### Corporate credit union bylaws updated

The NCUA Board approved updated corporate credit union bylaws to reflect the current legal, technological and financial environment. With the original bylaws issued 20 years ago, corporate credit unions are encouraged, though not required, to adopt any or all of the revised bylaws.

The most significant changes include:

- Corporate bylaws are now written in plain English;
- Many operational issues pertaining to member shares and loans were eliminated;
- Corporate federal credit unions can now use technology to notify members and conduct elections; and
- An indemnification section was added.

### Liquidation rule change permits swap agreements to qualify as financial contracts

The NCUA Board adopted a final rule change to Section 709.13 amending the involuntary liquidation rule to designate swap agreements as qualified financial contracts (QFCs) to enhance stability of the swaps market and encourage enti-

ties to engage in swaps with federally insured credit unions.

The *Federal Credit Union Act* stipulates “the term ‘qualified financial contract’ means any securities contract, forward contract, repurchase agreement, and any similar agreement that the NCUA Board determines by regulation to be a qualified financial contract for purposes of this paragraph.”

Generally, designating swap agreements as QFCs enables a QFC counterparty to exercise its contractual right to terminate and net QFCs thereby protecting itself against the selective assumption of QFCs by a liquidating agent or conservator. QFC treatment limits counterparty exposure and preserves market stability when a credit union with QFCs enters liquidation or conservatorship.

### Regulation development and review requirements revised

The NCUA Board issued final rule change *Interpretive Ruling and Policy Statement (IRPS) 03-2* to redefine “small entity” to mean those credit unions under \$10 million in assets.

The *Regulatory Flexibility Act* requires federal agencies to prepare analyses describing the impact of proposed and final rules on small entities. In this context, NCUA has amended its definition of small entity by increasing it from credit unions under \$1 million in assets to credit unions under \$10 million in assets.

The final rule also reiterates NCUA policy of reviewing existing regulations every three years by stating that one-third of existing regulations will be reviewed each year and the public will receive notice of regulations under review.

**Votes are unanimous unless noted**

## Upcoming Regulation CC amendments

The Federal Reserve Board (FRB) announced in May a series of amendments is expected in 2003 and 2004 to Appendix A of Regulation CC reflecting restructuring of the Federal Reserve’s check processing operations. Appendix A provides a routing number guide that helps financial institutions determine the maximum permissible hold periods for most deposited checks.

The amendments will reduce the number of check processing regions listed in Appendix A from 44 to 32, resulting in some non-local checks in the affected regions becoming local checks and therefore subject to faster availability schedules. The FRB will publish each amendment in the *Federal Register* at least 60 days before the effective date to allow ample time for depository institutions to make necessary changes.

Credit unions in affected regions may need to modify their funds availability schedules, related disclosures and data processing system to reflect expansion of the Federal Reserve check processing regions. Section 229.18(e) of Regulation CC requires credit unions to notify account holders within 30 days of implementing a change that improves availability of funds.

## Credit union employees double in 12 years

The number of federally insured credit union employees increased 50 percent between 1990 and 2002, as credit unions strove to keep pace with 106 percent asset growth. The average number of employees per credit union increased from 10.3 to 21.8. Federally insured credit unions employed 211,433 people as of December 31, 2002.



**Who and What:** Board Member Deborah Matz will address the Louisiana CU League's 69th Annual Meeting and Convention.

**When:** 9 a.m., **June 18, 2003**

**Where:** The Radisson Hotel, Baton Rouge, La.

**Why:** Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov).

**Who and What:** Chairman Dennis Dollar will speak at the Rhode Island Credit Union League's Annual Meeting.

**When:** Thursday, **June 19, 2003**

**Where:** Aldrich Mansion, Warwick, R.I.

**Why:** Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.

**Contact:** Nicholas Owens at 703-518-6336 or [nowens@ncua.gov](mailto:nowens@ncua.gov).

**Who and What:** Chairman Dennis Dollar will participate in the White House Initiative to Increase Minority Homeownership addressing the HUD "Homeownership Express" Bus Tour stop in Birmingham.

**When:** 10 a.m., **June 20, 2003**

**Where:** Centennial Place Community Development Center, Birmingham, Ala.

**Why:** NCUA is a blueprint partner with HUD on increasing minority homeowners in America.

**Contact:** Nicholas Owens at 703-518-6336 or [nowens@ncua.gov](mailto:nowens@ncua.gov).

**Who and What:** Board Member Deborah Matz will participate in a small credit union roundtable hosted by the New Jersey Credit Union League.

**When:** 10 a.m., **June 21, 2003**

**Where:** The New Jersey CU League Education Center, Hightstown, N.J.

**Why:** Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov).

**Who and What:** Board Member Deborah Matz will co-host a Hispanic Outreach workshop with Alabama, Georgia, North Carolina and South Carolina CU Leagues.

**When:** 8 a.m., **July 8, 2003**

**Where:** Marriott Durham Civic Center, Durham, N.C.

**Why:** To provide information on how credit unions can better serve members of the Latino community.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov).

**Who and What:** Vice Chair JoAnn Johnson will address the Mountain Regional Credit Union Roundtable.

**When:** **July 9, 2003**

**Where:** Big Sky, Mont.

**Why:** Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703 518-6309 or [hgraham@ncua.gov](mailto:hgraham@ncua.gov).

**Who and What:** Vice Chair JoAnn Johnson will address the National Association of Credit Union Supervisory and Auditing Committees' Annual Convention.

**When:** **July 17, 2003**

**Where:** San Antonio, Texas

**Why:** Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703 518-6309 or [hgraham@ncua.gov](mailto:hgraham@ncua.gov).

**Who and What:** Chairman Dennis Dollar will speak at the NAFCU Annual Conference.

**When:** 12:50 p.m., Thursday, **July 24, 2003**

**Where:** John B. Hynes Veterans Memorial Convention Center, Boston, Mass.

**Why:** Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.

**Contact:** Nicholas Owens at 703 518-6336 or [nowens@ncua.gov](mailto:nowens@ncua.gov).

**Who and What:** Vice Chair JoAnn Johnson will address the NAFCU Annual Conference.

**When:** **July 25, 2003**

**Where:** John B. Hynes Veterans Memorial Convention Center, Boston, Mass.

**Why:** Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703 518-6309 or [hgraham@ncua.gov](mailto:hgraham@ncua.gov)

**Who and What:** Board Member Deborah Matz will address the NAFCU Annual Conference.

**When:** 9:55 a.m., Friday, **July 25, 2003**

**Where:** John B. Hynes Veterans Memorial Convention Center, Boston, Mass.

**Why:** Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov)

## Vice Chair Johnson meets with New York City credit unions

NCUA Vice Chair JoAnn Johnson took part in a roundtable discussion May 15th with several New York City credit unions at Lower East Side People's Federal Credit Union in lower Manhattan, and she addressed the Metropolitan District meeting of New York credit unions that same evening.

Credit union volunteers, officials, community leaders and members met at the roundtable to discuss their successes, economic issues affecting their communities and opportunities to increase member business lending.

"I enjoyed participating in the roundtable discussion and in particular our dialogue on the opportunities and

challenges in the member business lending arena," said Vice Chair Johnson. "I'm aware that the lower Manhattan area has a great demand for a lower-cost financial alternative and these credit unions are making a positive, real difference in the lives of the residents."

Since 1986, Lower East Side People's Federal Credit Union has served the lower east side of Manhattan, one of the most financially underserved areas in the city and traditionally home to many new immigrants. It is now the only financial institution in the neighborhood. The low-income credit union has 4,000 members and assets totaling \$10 million.



**New York, N.Y., May 15, 2003** – Vice Chair JoAnn Johnson with members of the New York Metropolitan Chapter after she addressed the group. Michael Lotz, COO, British Airways Employees FCU; Vice Chair Johnson; Michael Masi, manager, Saks Fifth Avenue Enterprises FCU; William Mellin, CEO, New York State CU League; John Gibardi, president and CEO, Entertainment Industries FCU.

## Recent publications

**Regulatory Alert No.: 03-RA-08**, issued in May, notifies federal credit unions of recent changes to the official staff commentary on Regulation Z, which implements the *Truth in Lending Act*.

The changes concern:

- Certain credit card fees;

- Rules for replacing an accepted credit card with one or more cards;
- Disclosure of private mortgage insurance premiums; and
- Selection of the Treasury security yields for determining whether a mortgage loan is covered by provisions in Regulation Z

that implement the *Home Ownership and Equity Protection Act*.

The revisions were effective April 1, 2003, and mandatory compliance begins October 1, 2003. The final rule can be found on the Federal Reserve Board's (FRB) website at [www.federalreserve.gov/boarddocs/press/bcreg/2003/20030328/attachment.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2003/20030328/attachment.pdf)

**Regulatory Alert No. 03-RA-09**, issued in May, notifies federal credit unions that the FRB recently published final amendments to Regulation B, which implements the *Equal Credit Opportunity Act*.

The most significant amendments include:

- Permissibility of collecting personal characteristics in connection with nonmortgage credit for self-testing purposes only, and
- Record retention for prescreened solicitations.

The rule is effective April 15, 2003; however, mandatory compliance is delayed until April 15, 2004. A copy of the rule is available on the FRB website at:

[www.federalreserve.gov/boarddocs/press/bcreg/2003/20030305/attachment.pdf](http://www.federalreserve.gov/boarddocs/press/bcreg/2003/20030305/attachment.pdf)

**Regulatory Alert No. 03-RA-07** notified all federally insured credit unions in May that final regulations on customer identification programs for banks, savings associations, credit unions and certain non-federally regulated banks were issued by the Department of the Treasury, the Financial Crimes Enforcement Network, and the seven federal functional regulators, including NCUA.

Implementing section 326 of the *USA PATRIOT Act*, the rules require financial institutions to establish procedures for identifying and verifying the identity of persons that open new accounts. The rules are effective June 9, 2003; however, financial institutions have until October 1, 2003, to be in compliance.

The rules require credit unions and other financial institutions to implement reasonable procedures that include:

- (1) Verifying the identity of any person opening an account;
- (2) Maintaining records of the information used to verify the person's identity; and
- (3) Determining whether the person appears on any list of known or suspected terrorists or terrorist organizations.

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## Matz advises credit unions: Reach out with the International Remittance Network

NCUA Board Member Deborah Matz urged D.C. Credit Union League participants June 4 to reach out to potential credit union members by offering a variety of attractive programs, such as the International Remittance Network (IRnet), a safe, economical way to send money internationally and domestically.

Matz explained to the credit union officials that the people-helping-people philosophy is a significant weapon in their fight against taxation. "Make sure that you offer a variety of attractive programs, and not just for your current members," Matz said suggesting, "Consider joining the International Remittance Network (IRnet). Every day you should reach out to new members – young and old, high- and low-income, Americans and recent immigrants."

The IRnet program, sponsored by the World Council of Credit Unions, enables money to be sent to dozens of countries including

Mexico, El Salvador, Honduras and many African nations.

"In the DC metropolitan area there is a ripe market for this service. About 20 percent of the residents are immigrants," said Matz. Of these immigrants, about 40 percent are from Asia, 40 percent from Latin America and 12 percent from Africa. "This is an opportunity to attract new members and serve people who would otherwise not have access to traditional financial services, and it's an opportunity to earn fee income from the transactions as well," she said.

Last year, an estimated \$25 billion in U.S. remittances were sent to Latin America alone and these customers paid \$3 billion in remittance fees. It's estimated consumers can save 30 to 50 percent using IRnet compared to other wire transfer services.

To learn more about IRnet, contact the World Council of Credit Unions at (608) 231-7130 or [mail@woccu.org](mailto:mail@woccu.org).

### Recent publications

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A credit union's program must contain procedures for obtaining and verifying identity information for new member's name, address, date of birth, and an identification number (for U.S. persons, typically a social security number and for non-U.S. persons, a similar number from a government-issued document).

The program must also contain procedures for keeping records of the information used to verify the member's identity and for determining if the member appears on any list of known or suspected terrorists or terrorist organizations designated by Treasury.

The final rule gives credit unions the flexibility to tailor their procedures based on size, location, and types of services offered; however, every program must meet these minimum elements.

Questions should be addressed to a regional office, examiner, or state supervisory authority.

### Sign-up for the next PALS workshop

On July 8, the North Carolina, South Carolina, Georgia and Alabama Credit Union Leagues are cosponsoring, with Board Member Deborah Matz, a PALS workshop in Durham, North Carolina, "Making the Latino Con-



nection: A PALS Workshop for Credit Unions." It will address the financial service needs of the Hispanic community as well as techniques to market successfully to this population. Member business lending and the Small Business Administration 7(a) loan guarantee program will be the subject of a PALS workshop planned for October.

Workshops are open to everyone. If you are interested in attending or would like more information, please contact Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov).

## Matz addresses Louisiana CU league



**June 18, 2003, Baton Rouge, La.** – National Credit Union Administration Board Member Deborah Matz (center), with the board and staff of Campus Federal Credit Union, after she addressed the annual convention of the Louisiana Credit Union League. Board Member Matz urged convention participants to reach new members and partner with the Internal Revenue Service in offering the Volunteers in Tax Assistance program.

## About investments

# Investments — you might do better to shop around



Help ensure you receive a fair value on investment transactions by shopping around and getting quotes from more than one broker-dealer. The best evidence of a fair value investment is a quoted market price in an active market.

Without obtaining quoted market prices from more than one broker-dealer, you should be cautious about relying on a model price from an information vendor system or broker valuation system. Current market conditions can make it difficult to estimate the fair

value of investments such as callable bonds or collateralized mortgage obligations (CMOs). Interest rates are currently at historically low levels, prepayment speeds on newly issued mortgage-backed securities (MBS) are very slow, and uncertainty about future interest rates (e.g., volatility) is high.

Model prices are subject to error. Potential mistakes that can result in erroneous model prices include:

- Using a calculator that does not value all material characteristics of an investment—such as valuing a floating rate CMO with a model that does not value a cap on the interest rate;
- Using assumptions or system defaults

that differ from those of market participants—such as using default prepayment assumptions that are faster than current market expectations; and

- Using results from one valuation technique in another model with different assumptions—such as computing option adjusted spread (OAS) correctly using a market volatility assumption, then incorrectly using that OAS to calculate an estimated price of a similar MBS or CMO using a default volatility of 15 percent, even though market volatility is higher.

Under current market conditions, these potential mistakes result in a model price that is higher than fair value. If you rely only upon such a model price and purchase an investment at that price, you would pay too much. So, be safe and shop around.

## Melinda Love Named Region VI Director

NCUA Region IV Director Melinda Love has been named director of the Region VI office, effective July 1, 2003,

succeeding Robert Blatner who retired last month.



As regional director, Love will be responsible for the NCUA Region VI operation in Concord, California, which includes the

examination and supervision activities for federal credit unions in Alaska, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming. The Region VI office will relocate to Phoenix, Arizona, before the end of 2004.

“Melinda Love is an outstanding regional director who has proven to be an excellent leader in her region,” said Chairman Dennis Dollar in announcing the reassignment on behalf of the NCUA

Board. “Under her leadership, Region IV has seen steady progress in both the effectiveness of its supervisory program and the financial strength of its credit unions. In achieving this high level of performance in the region, Melinda has gained the respect of her peers, state regulators and industry officials. The Board has total confidence that she will bring that same high caliber of performance to Region VI.”

Love has been director of Region IV in Lisle, Illinois, since June 2000 after serving several years as NCUA deputy executive director assisting the executive director in managing the day-to-day operations of NCUA in the Alexandria headquarters office. She also served as deputy director supervising Operations in the Office of Examination and Insurance.

Her NCUA career began in 1986 as an examiner in Northern California. She quickly advanced in Region VI as a principal examiner, problem case officer, supervision analyst, and supervisory

examiner. Love participated in NCUA’s management development program in the early 1990s.

Melinda Love holds a degree in accounting from San Francisco State University in Daly City, California, and a MBA from St. Mary’s College in Moraga, California. She is a certified internal auditor and a member of the Institute of Internal Auditors. Through this organization, she participated in the Citizen’s Ambassador Program’s 1991 accounting and auditing delegation to Moscow, St. Petersburg and Pyatagorsk, Russia.

### CU’s hold over 6% of financial institution assets

For the first time, credit union assets topped 6 percent of all assets held by federally insured financial institutions. Based on yearend 2002 FDIC and NCUA call report data, credit union assets represent 6.20 percent of federally insured financial institution assets.



## Underserved area membership growth phenomenal

Chairman Dennis Dollar told a group of national housing leaders at the National Press Club in Washington, D.C., June 16 that NCUA's Access Across America initiative is resulting in 93 percent greater membership growth among federal credit unions that bring underserved areas into their fields of membership than the national average membership growth.

"The agency's internal numbers are proof positive that credit unions are not merely expanding into underserved areas, they are adopting those communities and making a positive difference in the lives of the residents there," Chairman Dollar touted while addressing the National Rural Housing Summit sponsored by the U. S. Department of Agriculture.

Since the agency began emphasizing the ability of federal credit unions to expand their fields of membership into underserved areas through its Access Across America initiative in early

2000, the average annual membership growth in credit unions that have adopted underserved areas is 4.80 percent. The average annual membership growth in all credit unions since January 2000 is 2.49 percent.

"The membership growth rate for credit unions that adopt underserved areas is 93 percent greater than the average annual growth rate for all federal credit unions," said Chairman Dollar. "If these trends continue, credit unions could indeed put the most significant dent ever into the pawn shop-payday lending mentality, which permeates so many of these neighborhoods, and I would consider that to be one of the crowning achievements of Access Across America."



## Risk-based PCA

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"I do not wish to see Congress lower the standards," said Dollar. "In fact, I would strongly oppose lowering the bar. It just seems to me that the PCA standards, to be most effective in encouraging better risk management by credit unions, should be based on a percentage of at-risk assets, not total assets. Why do we need credit unions reserving a full 7 percent against the cash in their vaults, overnight cash accounts, federally guaranteed loans like student loans and SBA loans? The net worth reserve should be based upon their assets which have the potential to cause a loss. Then, and only then in my opinion, would PCA work like it was intended by providing credit unions with an incentive for managing their risk more effectively."

Should legislation be enacted by Congress, Dollar suggested the starting point for NCUA regulation to implement a risk-based PCA law would be the pre-1998 statutory reserve formula for federally insured credit unions. It excluded from the asset definition cash on hand, deposits in federally-insured institutions, loans guaranteed by governmental agencies, CLF investments and a credit union's 1 percent NCUSIF deposit.

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